


**RIO ALTO
EXPLORATION LTD.**

THIRD ANNUAL REPORT

1972



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OFFICERS

R.W. Termuende	—	President
D.W. Hilland	—	Secretary

DIRECTORS

J. Poscente	—	Calgary
R.W. Termuende	—	Calgary
D.W. Hilland	—	Calgary
R.J. Kirker	—	Calgary
H.B. Tiffin	—	Calgary
C.W. Byler	—	Calgary
E.G. Mackenzie	—	Calgary

BANKS

Canadian Imperial Bank of Commerce
Royal Bank of Canada

AUDITORS

Collins, Love, Eddis, Valiquette & Barrow

LAWYERS

McLaws & Company

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
Calgary, Alberta

HEAD OFFICE

736 - 8th Avenue S.W.
Calgary, Alberta

DIRECTORS' REPORT

Financial

Exploration and acquisition costs for the year 1972 totalled \$51,725. Income during the year amounted to \$30,728 of which \$18,000 was received in pre-production royalties from Consolidation Coal Company of Canada, and \$11,500 from the sale of capital stock. Working capital at the end of the year was \$32,301.

Alberta Coal Properties

During 1972, considerable development work was done on the Nordegg-Ram River and Clearwater coal properties in which Rio Alto has royalty interests.

In the Clearwater area, a drilling program has indicated an adequate quantity of recoverable coal reserves to support a mining operation.

The Nordegg-Ram River properties continue to be a major asset to the Company. Recent press reports indicate that Consolidation Coal Company of Canada is contracting to sell between 1.5 million and 2 million tons annually from their Nordegg blocks. It appears that some of this contract would be fulfilled with coal from Rio Alto's lands. The Company now receives \$18,000 per year pre-production royalties from its Alberta coking coal properties.

Base Metal Exploration

A major exploration program was carried out on the Company's copper prospect at Sooke, British Columbia. This property consists of 15,000 acres of CanPac mineral leases located about 4 miles northeast of Jordan River Mines, now in production. Significant surface mineralization was tested by trenching, and geophysical surveys have defined a number of drilling targets. A diamond drilling program is now in progress. Early in 1973, the Company acquired a majority interest in an additional 8,000 acres of CanPac mineral leases adjoining the original acreage.

Outlook

Late in 1972 and continuing in 1973 Rio Alto initiated a program designed to diversify its acquisition and exploration activities.

Recently, Rio Alto Petroleums Ltd. was formed as a wholly owned subsidiary of Rio Alto Exploration Ltd. This company has already acquired interests varying from 13% to 100% in nine producing oil wells in Saskatchewan. Negotiations for further acquisitions of petroleum and natural gas production are underway. In addition, Rio Alto Petroleums will be examining petroleum and natural gas prospects with the goal of acquiring significant interests.

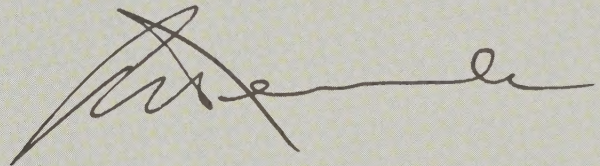
Rio Alto Exploration is now negotiating the purchase of an interest in a mining exploration venture in Australia.

Funds for further expansion of Rio Alto's activities are being raised by the private placement of capital stock. A public underwriting is planned for 1973.

Directors and Management

On November 23, 1972, R.W. Termuende and E.G. Mackenzie were elected to the Board of Directors. At the same time J. Poscente became Chairman of the Board of Directors, and R.W. Termuende was appointed President.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read 'R. W. Termuende', with a long horizontal flourish extending to the right.

R. W. Termuende, President.

COAL INTERESTS — Alberta

The Company has an excellent representation in the coal areas of the outer Foothills of Central Alberta. This area contains large reserves of excellent quality coking coal and although the majority of the reserves are recoverable by underground methods, the quality will probably allow for their production prior to that of lower quality reserves in other parts of Western Canada.

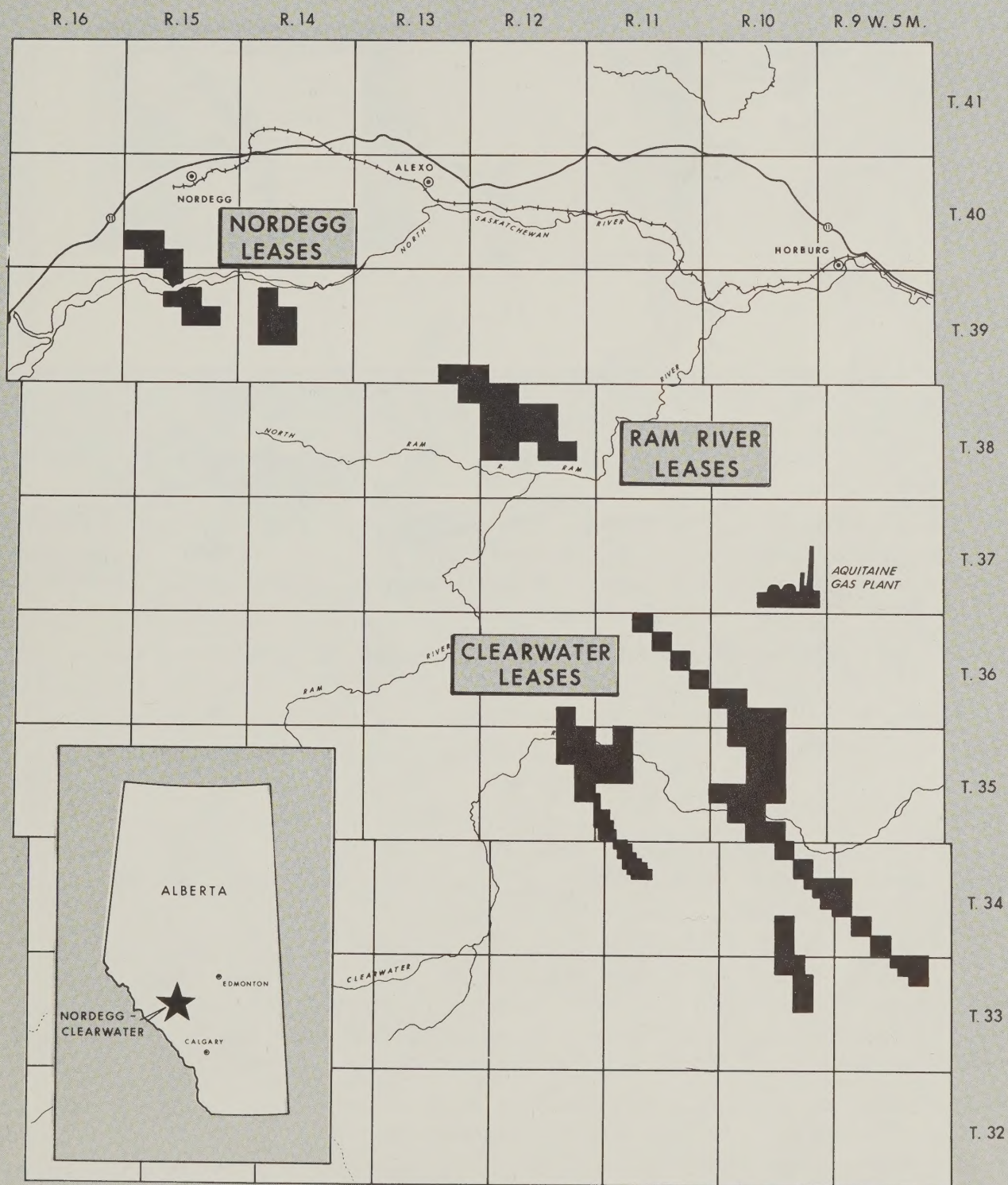
Clearwater.

In 1970 Rio Alto and its associates acquired 66,560 acres of coal exploration permits in this area. These permits were subsequently sold to an Italian syndicate with the group reserving a 15¢/ton royalty until payout and 25¢/ton thereafter.

To date over \$150,000 have been expended in drilling and trenching on these properties and some 40 million tons of "product" coal indicated on a portion of the 34,240 lease acres that have been retained.

It is planned to drive two adits this summer in order to obtain bulk samples for furnace tests and evaluate mining conditions. If the results of the bulk sample program with the attendant laboratory and furnace tests are encouraging, it will be necessary to undertake a full-scale feasibility study.

At such time as this property becomes productive, Rio Alto will receive a minimum of \$24,000 per million tons per year until payout and \$40,000 per million tons per year thereafter.



ALBERTA COAL PROPERTIES

Ram River

This block of 10,880 acres in Township 38 and 39, Range 12 and 13, West of the Fifth Meridian was optioned to the Consolidation Coal Company in 1970. The agreement provides for a 12¢/ton royalty when the property goes into production. The Company now receives \$6,000 per year in pre-production royalties.

We have been advised that Consolidation have spent over \$300,000 in this area and they have proven about one-half of the required reserves to justify a one million ton per year operation.

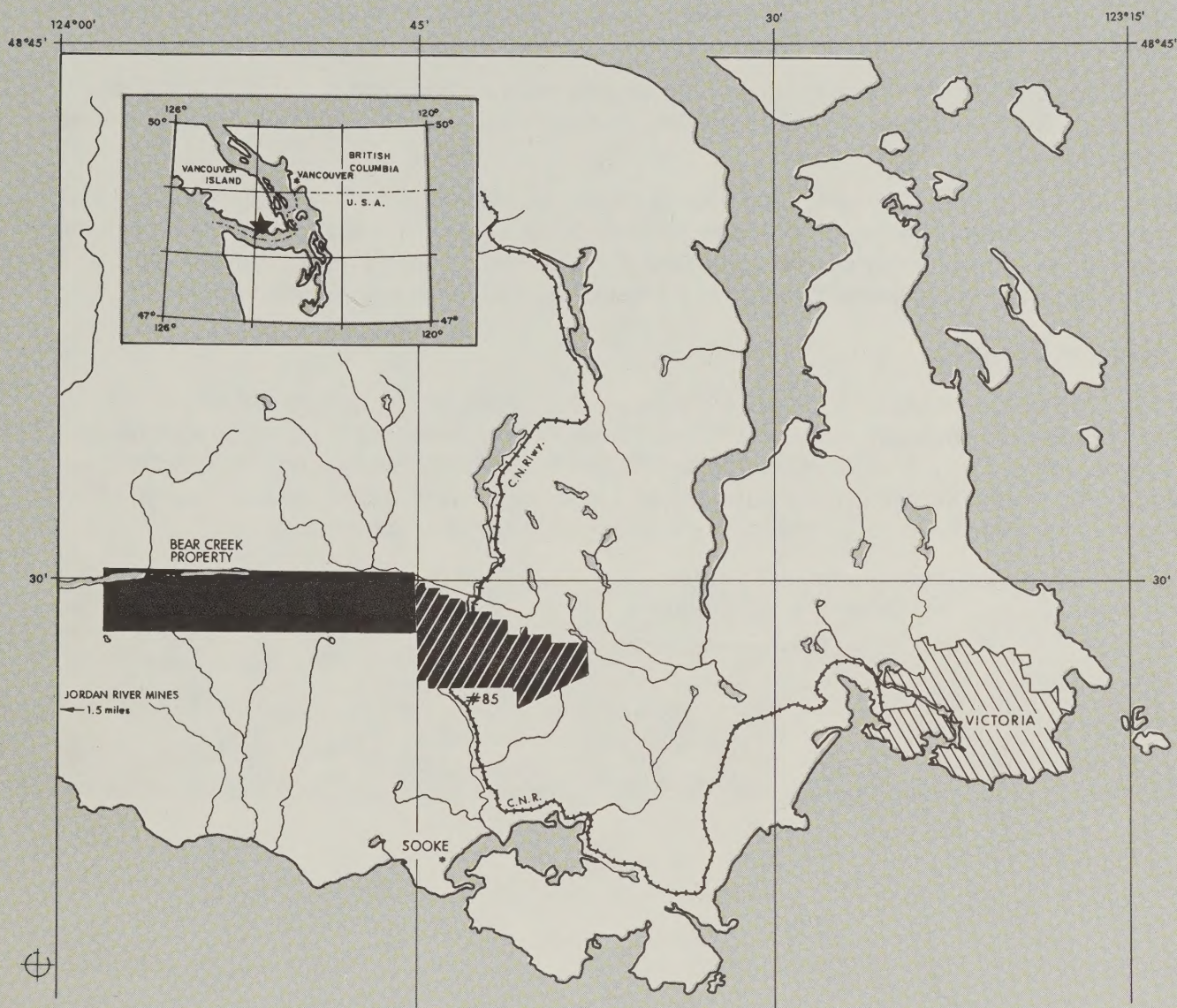
A one million ton per year operation would net Rio Alto \$120,000 per year.

Nordegg

Rio Alto has two additional blocks in the Nordegg area that are optioned to Consolidation on the same terms as the Ram River block. These blocks consisting of 9,600 acres, straddle the Saskatchewan River.

Consolidation have done considerable work on their own permits immediately north of these blocks but only a limited amount of work on the Rio Alto blocks themselves. Recent press articles state that Consolidation is negotiating a contract to sell between 1.5 million and 2 million tons annually to the Japanese from their holdings in this area. It appears that some of this contract will be fulfilled with coal from the Rio Alto lands.

Production of 250,000 tons a year from the Rio Alto lands would generate \$30,000 per year in royalty payments. Rio Alto now receives \$12,000 per year in pre-production royalties from the Nordegg blocks.



SOOKE PROPERTY – Rio Alto 75% interest

In 1971, the Company acquired two Canadian Pacific mineral leases containing about 15,000 acres. Considerable copper mineralization has been located in outcrop. Geological studies indicated that the structure and formations contained in these leases were similar to the property now being mined at Jordan River, about 4 miles to the southwest.

Geochemical and geophysical surveys located a number of areas that warranted testing by diamond drilling. Prior to the establishment of a drilling program, some areas were selected for trenching. This was carried out and four trenches showed copper mineralization extending below the surface. Subsequently the entire lease area was mapped in detail to define the order of priority for further work.

It was concluded that the original drilling targets were in the most significant areas of the property. As a result a diamond drilling program to test at least two targets is now underway.

Early in 1973, the Company acquired a majority interest in Mineral Lease #85. This property, which has geological features similar to the original acreage, is east of the existing property. A similar program was planned for the new property and to date, the initial geochemical and geophysical surveys have been completed with encouraging results.

OTHER INTERESTS

1) In British Columbia, Rio Alto holds varying interests in 74 base metal claims located near Cranbrook, Salmon Arm and Windermere. Preliminary exploration programs have indicated that further work is warranted. The extent of any new programs, however, will depend to a large extent on the outcome of the changes in mining exploration regulations that have recently been proposed by the British Columbia Government.

2) The Company has a minority interest in 768 claims in the district of Keewatin, Northwest Territories. These claims contain a nickel/copper occurrence.

AUDITORS' REPORT

To the Shareholders
Rio Alto Exploration Ltd.

We have examined the balance sheet of Rio Alto Exploration Ltd. as at December 31, 1972 and the statements of deferred exploration expenditures, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 15, 1973

COLLINS LOVE EDDIS VALIQUETTE & BARROW
CHARTERED ACCOUNTANTS

RIO ALTO EXPLORATION LTD. • BALANCE SHEET • DECEMBER 31, 1972

ASSETS

	1972	1971
CURRENT ASSETS		
Cash	\$ 14,774	\$ 1,726
Term deposit certificate	30,000	10,000
Accounts receivable	4,365	24,784
Share subscriptions receivable (note 4)	10,430	17,430
Funds in lawyers' trust account	—	100,000
Refundable deposit	<u>12,500</u>	<u>12,500</u>
	72,069	166,440
 MINING PROPERTIES AND CLAIMS (NOTE 1)	 75,993	 70,286
 DEFERRED EXPLORATION EXPENDITURES	 <u>90,877</u>	 <u>68,889</u>
	\$ <u>238,939</u>	\$ <u>305,615</u>

LIABILITIES

	1972	1971
CURRENT LIABILITIES		
Accounts payable	\$ <u>39,768</u>	\$ <u>105,472</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (NOTE 2)		
Authorized		
3,000,000 shares of no par value		
Issued		
1,328,750 shares (1971 — 1,300,000)	207,500	196,000
Retained earnings (deficit)	<u>(8,329)</u>	<u>4,143</u>
	<u>199,171</u>	<u>200,143</u>
	\$ <u>238,939</u>	\$ <u>305,615</u>
Approved on behalf of the Board,		

ROBERT W. TERMUENDE, Director

DOUGLAS W. HILLAND, Director

The accompanying notes are an integral part of these financial statements.

STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1972

	1972	1971
Retained earnings, beginning of period	\$ 4,143	\$ 2,118
Add: Preproduction royalties and proceeds from the sale of interests in mining properties (note 3)	18,000	46,900
Sundry	1,228	—
	<u>23,371</u>	<u>49,018</u>
Deduct: Capital costs of mining properties disposed	7,540	7,544
Deferred exploration applicable to mining properties disposed	2,919	9,384
Incorporation, reorganization and administration costs written off	15,318	27,947
Other costs (note 3(c))	5,923	—
	<u>31,700</u>	<u>44,875</u>
Retained earnings (deficit), end of period	<u><u>\$ (8,329)</u></u>	<u><u>\$ 4,143</u></u>

The accompanying notes are an integral part of these financial statements

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1972

	1972	1971
Source of funds		
Sale of capital stock	\$ 11,500	\$ 96,000
Less: Issued on acquisition of properties	<u>11,500</u>	<u>—</u>
	<u>—</u>	<u>96,000</u>
Preproduction royalties and proceeds from sale of interests in mining properties (note 3)		
Ram River area	6,000	6,000
Nordegg area	12,000	12,000
Clearwater area	<u>—</u>	<u>28,900</u>
	<u>18,000</u>	<u>46,900</u>
Sundry	<u>1,228</u>	<u>—</u>
	<u>19,228</u>	<u>142,900</u>
Application of funds		
Purchase of mining properties and claims	13,247	7,479
Less: Acquired by the issuance of capital stock	<u>11,500</u>	<u>—</u>
	1,747	7,479
Deferred exploration expenditures	24,907	61,145
Administration expenditures	15,318	11,997
Other costs (note 3(c))	5,923	—
Incorporation and reorganization costs	<u>—</u>	<u>9,075</u>
	<u>47,895</u>	<u>89,696</u>
Increase (decrease) in working capital	(28,667)	53,204
Working capital, beginning of period	<u>60,968</u>	<u>7,764</u>
Working capital, end of period	<u>\$ 32,301</u>	<u>\$ 60,968</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF DEFERRED EXPLORATION EXPENDITURES
YEAR ENDED DECEMBER 31, 1972

	Deferred December 31, 1971	Expenditures for the year	Charge to Retained Earnings	Deferred December 31, 1972
Exploration management and supervision, consulting and reporting	\$ 13,748	\$ 4,092	\$ 1,383	\$ 16,457
Geological and field expenses	50,480	19,225	1,027	68,678
Assaying	2,990	800	489	3,301
Government fees and rentals	1,340	648	20	1,968
Sundry	<u>331</u>	<u>142</u>	<u>—</u>	<u>473</u>
	<u>\$ 68,889</u>	<u>\$ 24,907</u>	<u>\$ 2,919</u>	<u>\$ 90,877</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1972

1. Mining properties and claims:

	Acquired for		
	Cash	Shares	Total
Province of British Columbia			
Balance, December 31, 1971	\$ 3,246	\$37,000	\$40,246
Cost of Additions	<u>327</u>	<u>11,500</u>	<u>11,827</u>
Balance, December 31, 1972	<u>3,573</u>	<u>48,500</u>	<u>52,073</u>
Province of Alberta			
Balance, December 31, 1971	3,540	19,000	22,540
Cost of additions	<u>1,420</u>	<u>—</u>	<u>1,420</u>
	<u>4,960</u>	<u>19,000</u>	<u>23,960</u>
Cost of disposals	<u>3,540</u>	<u>4,000</u>	<u>7,540</u>
Balance, December 31, 1972	<u>1,420</u>	<u>15,000</u>	<u>16,420</u>
Province of Saskatchewan	—	7,500	7,500
	<u>\$ 4,993</u>	<u>\$71,000</u>	<u>\$75,993</u>

2. Capital Stock

Capital stock outstanding at December 31, 1972 is as follows:

	Number of Shares	Stated Value
For mining properties and claims	763,750	\$ 85,000
For cash	<u>565,000</u>	<u>122,500</u>
	<u>1,328,750</u>	<u>\$ 207,500</u>

3. Material agreements

(a) By agreement dated May 1, 1970, the company earned the right to a minimum of \$6,000 per year in advance royalties on future coal production from properties in the Ram River area of the Province of Alberta disposed of on that date. These advance royalties are to be considered part of a 12 cent per short ton overriding royalty payable to the company if and when production is commenced.

(b) By agreement dated May 23, 1970, the company earned the right to a minimum of \$12,000 per year in advance royalties on future coal production from properties in the Nordegg area of the Province of Alberta disposed of on that date. These advance royalties are to be considered part of a 12 cent per short ton overriding royalty payable to the company if and when production is commenced.

By agreement dated October 27, 1971, the company disposed of its share of properties in the Clearwater area of the Province of Alberta for a cash consideration of \$28,900. The company retains an interest in this land after production is commenced in the form of a royalty of approximately 2 cents per ton, until Clearwater Coal Ltd. recovers their direct exploration and mining costs incurred together with the cost of any plant constructed to process coal, and thereafter approximately 5 cents per ton.

(c) By agreement dated December 17, 1971, the company agreed to acquire the shares of a private company for \$50,000 cash and 200,000 shares of the company valued at fifty cents each. The proposed acquisition was not completed resulting in costs of \$5,923 being written off in the current period.

(d) By agreement dated May 26, 1972 the company issued 28,500 shares at a deemed price of \$11,500 for a 45% interest in the Sooke prospect on Vancouver Island.

4. Share subscriptions receivable.

The balance receivable on the sale of capital stock was received in January 1973.

